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economic

Review

Social Aspects of Transition

When it was finally realized in the 1980s that socialism, as a social order, was unable to provide efficiency in development, especially not in the modified form of self-managing socialism, debates were launched in Yugoslavia on abandoning it and establishing new social relations. Reform programs were drawn up by precisely those who had built the system that was to be changed. Can anyone imagine a mother abandoning her mischievous child? She will endeavor to change him, but will go soft and tolerate the resistance she knows to be of a genetic nature. Therefore, changes of that type could be carried out only by those who had no emotional ties to the child called socialism, and whose bloodstream was made up of social property.

At the end of the 1980s, all socialist countries started changing the existing socialist system. The same was done in Yugoslavia. The reform laws of 1989 and 1990 abolished self-management, but not social property. Its disappearance was to be gradual. The guardians of socialism, i.e. of their own positions, protected it, and it protected their positions and produced losses.

According to official statistics, in FR Yugoslavia without Kosovo-Metohija, the social product in constant prices registered a drop by 54% in 1999 relative to 1990. However, Calculated in German marks according to the market exchange rate, the nominal social product was down by 72%. The average wage, also calculated in DM at the market exchange rate, was down n 1999 by 80%, and the average pension down by 82%. The rate of open unemployment compared to the registered labor force increased from 19.7% in 1990 to 27.3% in 1999, while the rate of surplus labor in social and state companies grew from around 19.6% to some 58%. In 1999, the poverty rate among all households amounted to 29.4%, and of non-agricultural households, predominantly living off salaries and pensions, the poverty rate was 32.9%.

FRY [a)] Basic Economic Indicators	1999	1999 / 1998	XII 2000	XII 2000 / XI 2000	XII 2000 / XII 1999	I-XII 2000 / I-XII 1999
Industrial Production	...	-24.1%	...	-0.9%	-8.6%	10.9%
Montenegro	...	-7.6%	...	-16.6%	-16.6%	3.7%
Serbia	...	-25.6%	...	0.3%	-8.3%	11.4%
Central Serbia	...	-24.5%	...	0.5%	-13.6%	12.0%
Vojvodina	...	-28.2%	...	-0.1%	4.4%	10.1%
Average Wage - DM	107	-31.7%	...	...	...	...
Montenegro	154	-14.1%	...	...	...	...
Serbia	102	-33.8%	135	22.9%	55.6%	-11.2%
Unemployment Rate [b)]	27.3%	8.3%	28.7%	...	...	...
Montenegro	36.8%	7.9%	39.4%	...	...	...
Serbia	26.5%	8.2%	27.9%	...	...	...
Export - USD million	1,498	-46.9%	141	0.0%	14.7%	15.0%
Montenegro	123	-4.7%	4	-66.7%	-34.7%	31.1%
Serbia	1,375	-48.9%	136	6.8%	17.7%	13.8%
Import - USD million	3,296	-30.3%	285	-4.3%	-6.7%	12.6%
Montenegro	358	6.9%	13	-52.8%	-36.3%	-1.0%
Serbia	2,938	-33.2%	270	0.9%	-3.5%	15.6%
Monetary supply (M1), end of period, DIN billion	16.4	51.9%	31.3	17.3%	88.9%	61.7%
Cash	6.7	34.0%	11.5	26.3%	71.0%	41.6%
Deposits	9.7	67.2%	19.8	12.7%	101.1%	75.4%
Real money supply, end of period, DM million	739	-42.3%	1,043	17.3%	40.2%	-26.3%
Market exchange rate, monthly level	4.25%	-38.8%	6.80%	-1.2%	74.8%	37.3%
Retail prices	...	42.4%	...	2.7%	113.3%	75.7%
Montenegro	...	60.1%	...	...	...	...
Serbia	...	41.1%	...	2.8%	111.9%	70.0%
Cost of living	...	44.9%	...	1.7%	115.3%	85.6%
Montenegro	...	67.2%	...	...	...	...
Serbia	...	43.5%	...	1.8%	115.3%	79.6%
Industrial prices	...	44.2%	...	6.8%	142.5%	106.5%
Montenegro	...	63.7%	...	...	...	...
Serbia	...	43.2%	...	7.3%	143.9%	102.6%
Black market exchange rate (din/DM)	12.6	88.1%	30.00	0.0%	48.9%	103.2%

[a)] GDP for 1999 was 14,224 million USD, GDP per capita was 1,699 USD, GDP annual growth rate in 1999 was -19.3%, GDP annual growth per capita in 1999 was -19.1% (G17 estimate based on official data of the Federal Statistics Bureau).
[b)] Unemployment rate refers to November.

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Transition is worth the short-term pain

Opponents claim that this transitional period, which we must go through in order to achieve an efficient economy without which there is no improvement in the standard of living, is too hard and too painful. However, can anything be more painful than the fact: (1) that most of the citizens have reached the poverty line; (2) that it is impossible for many to obtain employment in a regular and legal manner; (3) that staying at work with monthly earnings sufficient to satisfy no more than the daily needs in living-nutrition of a four-member family is below the dignity of contemporary man; (4) that salaries, pensions, social and other transfers are usually several months overdue; (5) that accumulated expenses stimulate price growth and constantly threaten to cause instability; (6) that the irresponsible attitude of the former regime to the citizens' legal rights is shameful; (7) that living by one's wits in order to survive has reached its culmination; (8) that, on top of all this, a significant minority comprised of leading figures in the former regime is enjoying the wealth they acquired often through robbery and malfeasance.

Quick Change of the Social System

The transition from an authoritarian to a democratic social system in Yugoslavia was carried out relatively quickly and, for many, unexpectedly. The former regime is not even aware of the extent to which it had contributed to this itself. The break-up of the former Yugoslavia, the international community's sanctions, the production of one of the most devastating hyper-inflations in world economic history, the draining of capital from the economy and banks through gray channels in order to place it in personal pockets, and agreeing to NATO's bombardment, were all extremely strong reasons for citizens to turn their back on the Leader and his yes-men. Major events and a sufficiently long period of time, for present-day circumstances, over which they keep happening, unnoticeably, one would say, changed the mood of the Yugoslav citizens. The realization of the fact that they deserve a better and richer life was their guiding star. They felt the desire to feel happiness instead of the sorrow and pain inflicted on them by the wars in the region, the arrival of relatives and friends from war-torn regions who were left without their homes, and often without their dear ones as well, a scarcity of medical treatment, and NATO bombs.

During all these years the Yugoslavs have actually been in a so-called transitional shock. They touched the bottom of the transitional period already at the time of hyper-inflation. It was very difficult to renounce the services of one's old automobile, to ask a better-off colleague to drive you home for flour, potatoes, beans, sugar, sometimes meat and a bag of detergent provided by the trade union, to chase street hard currency dealers in the evening hours when salaries were usually paid out, so as to convert this measly portion of a salary into DM so that its value would not be halved by the following morning, to ride to work in a bus with a hole in the floor and in fear that it would overturn due to excessive weight. At the time the Leader kept telling us that all our troubles were coming from outside, that the world was to blame for this, and not he and his cronies who were living comfortable lives in their villas. Already then, the citizens did not believe him, but they were patient. They left room for the last chance.

Citizens cast unbending votes for change in September

Being at the bottom for a few more years definitely convinced the citizens that they would have to seek their own salvation. They made their first and most difficult step at the September elections. They voted for changes convinced that no shocks greater than the ones they had experienced over the previous ten years could befall them. Also, they convinced themselves that true reforms could be carried out only by new people.

Specificity of the Yugoslav Transition

As with all country cases, the context of Yugoslav transition is specific. The social aspect of the Yugoslav transition is also specific. A large majority of the citizens is readily awaiting changes. Many know what it means not to receive their salary, children's allowances or social welfare for a number of months, not to receive one's pension within the course of a month or possibly to receive only half of it, in violation of the law. To be formally employed, but actually unemployed with earnings that are much smaller than the payment that would be received following dismissal from work – this has been our reality for years. Relatively frequent murders, personal insecurity, various types of deception and robbery, all this is already well known. Few countries in transition have experienced greater shocks.

Donor aid fills the revenue gap, but legal reform is key to the long-term

Under the present Constitution, social issues fall under the jurisdiction of the republics. The ball is, therefore, in the new Serbian government's court. The new federal authorities have already created the main preconditions for the successful resolution of social problems in the period of transition. First of all, they have ensured the arrival of donations promised by the international community. This will ease will ease the budget difficulties forecasted to arise in 2001 due to the settlement of a part of the debts to citizens, initial efforts at renewal of the educational health care, social and judicial infrastructures, as well as a modernization of the state administration, and the assistance that is to be offered to state infrastructure companies until they restructure and achieve a satisfactory level of efficiency in their work. The obtainment of credits from international financial institutions for structural adjustment will also make a major contribution to bridging revenue shortfalls in the next year.

However, donor aid and credits are not sufficient. A change of legal regulations is essential. The new laws are to create a market environment for an entrepreneurial spirit, and to provide for the security of private property and contracts. This is the main precondition for the effectiveness of all investments, the inflow of direct foreign investments which will make possible the generation new jobs, the true employment of our workers, an increase in the real social product and salaries. A larger number of employees and a higher level of salaries will also provide for a larger inflow of revenue to the state coffer, i.e. the budget, which is essential for the successful resolution of all social issues. It is the state that needs to resolve this – to pass adequate laws and comply with the citizens' social rights in line with the law. Companies must be relieved of the social function.

Transition to a market economy requires a new social policy. It must be directed towards the protection of the work-able population and the development of an efficient social security system.

The new Serbian government must be resolute in carrying out what has been promised. It must live up to the citizens' expectations and speedily resolve the problems, both those inherited from the previous regime, and those brought about by transition.

How the Reforms Have Started Off

Following the recent change of power, the time came for implementing comprehensive reforms. Monetary reform was the fastest to ensue. With amendments to the Law on the National Bank of Yugoslavia, the Bank's governor gained independence from other state bodies and was granted full authorization to quantify domestic money and control commercial banking. His position was especially strengthened by the altered competencies of the federal government. The law stripped the government of its right to set the dinar's exchange rate. Instead, the government merely established the regime of the dinar's exchange rate, opting for hard currency exchange rates on the basis of market principles.

The governor appoints the vice-governors and their position is that of his aides. The Council of Governors, which once even dismissed the governor himself, no longer exists. It was the federal constitutional court that first contested the existence of this body and the amendments to the law have now provided for its abolition. Thus, with the broadening of the governor's competencies, the fate of the dinar has finally been placed in his hands. This puts an end to the idea of a "currency board" as an efficient method of self-regulation and the quick acquisition of quality domestic money.

Ideas for a "currency board" dismissed

There will also be no direct use of foreign money, as is the case in Montenegro and Kosovo. The intention is, however, to reintegrate these spaces into a single monetary system. Thus, to work on creating a quality dinar actually means laying the foundations for a better economic system without which there is no recovery for the devastated economy. It is only with a quality dinar that the National Bank of Yugoslavia can justify what it stands for.

Foreign Currency Payments

Counter to the advocated "currency board", and, above all, the direct use of foreign currency, the ban on the use of foreign currency in payment operations in the country has remained in place. Also maintained are all the penalties for those who do not abide by these regulations. It is still often impossible to purchase real estate and automobiles or to perform numerous other transactions without using foreign currency. Further, a considerable part of the payment operations are carried out with the use of foreign money. It is a stable dinar that should change all this, but this takes time. Until then, transgressions will continue, be they penalized or not, until conditions exist for quality domestic money to render the use of foreign money superfluous.

With this in mind, it is strange that the amendment to the Law on hard currency operations abandoned nominalism and legalized the setting of prices in relation to the value of hard currency or gold. This is justified only in the case of bad money. If there was faith in the altered money concept of the dinar and if it prevailed over the "currency board" and the direct use of foreign currency as domestic money, then there was no reason to abandon nominalism and legalize the currency and gold clause. This gives rise to doubt regarding the sustainability of nominalism, and will be only one of the obstacles faced by those seeking the domestic money's stabilization.

Fully armed with competencies, governor Dinkić, nevertheless, did retain an old custom and set his monetary policy goals for this year. They tare quite ambitious and boil down to speedy stabilization. The growth rate of average retail prices is planned to drop below one percent per month, aggregating to less than 12.7 percent annually. Moreover, without the price growth effect caused by the liberalization of prices, the goal is an annual retail price growth rate of up to 10 percent. Compared to last year's 114 percent inflation, this would be a great success. In order for it to be achieved, monetary policy must be conducted with a firm hand. Further, price liberalization is necessary; there is no such thing as rampant or quiet liberalization. It is only with liberalized prices that stabilization is possible.

Measure of money supply remains imperfect but NBJ shows a new dedication to regular publication of monetary statistics

Revealing his more specific intentions, the governor no longer resorted to any anticipation of money supply trends, but rather stated the future amounts of the "National Bank's net domestic assets" or "primary money". Unlike money supply, i.e. a well-defined M1, which includes cash and deposits of the non-banking sector, this other less precise term implies, apart from cash, also the deposits of banks and state accounts in the central bank.

Article 36 of the Law on the National Bank of Yugoslavia stipulates that it is the federal state and its member republics that are to keep sight deposits in the central bank. This is not really the case in practice, and the reasons for such a concept are not quite clear. One should also consider the possibility of the fisc keeping sight deposits in commercial banks. In that event, payments between the fisc and the rest of the non-banking sector would no longer directly affect the money supply size, the potentials for bank loans would be greater, and the multiplicator of credits through deposits would set in.

Strong Monetary Restraints

Mr. Dinkić has committed himself to not increase primary money in the first quarter of the year by more than 500 million dinars. With the multiplication of deposits through credits, primary money growth generates a considerably larger money supply. Thus, at the end of October, for which we have available data, the money supply was 1.575 times larger than primary money. It would, therefore, be more practical to reintroduce the notion of money supply in monetary planning. At the end of October it totaled to 23.0 billion dinars, only to grow to 31.3 billion dinars by the end of the last year. Therefore, strong monetary restraints are envisaged.

Also praiseworthy is the announced regular publication of monetary statistics. We have thus learned that cash accounted for an average 31.5 percent of the money supply in December, while this share grew to 34.6 percent at the end of the year. It is obviously necessary to recognize interests in the projection of achievable useful solutions.

We all know that the use of cash costs nothing. On the other hand, payments with giro money are burdened by a service tax and three other fees, which total to 0.6 percent of each payment. Also present is short weighing in the calculation of a larger percentage. Banks usually pay no interest on sight deposits. This makes cash much better money than giro money. A more favorable treatment of giro money is an

More favorable treatment of giro money is essential to renew cashless payments

essential step to renew cashless payments, and the banishment of cash shatters the black market. In any case, the mentioned fees must be abolished as soon as possible.

Fear for the success of the quantitative dosage of dinars in circulation remains due to the meager monetary and credit instruments. The projection is for dinars to be quantified by the sale of hard currency and the purchase of securities. The inflow of hard currency can easily result in excessive emission, which was the case with the inflow resulting from the sale of the Telecom. In conditions of the dinar's easy conversion into hard currency and a liberal import regime, a greater demand for dinars can be quickly met even without an increase in prices through enlarged imports. But we have yet to achieve these two important conditions. Until then we need to avoid a dinar emission which must be checked by the annulment of money. The dinar's exchange rate can be of assistance in this regard.

The emitted surplus dinars are to be annulled by the sale of the National Bank's securities to commercial banks and the banks' stepped up credit payments to the central bank. For now, the all but nonexistence of a securities market narrows the possibilities for transactions on the open market. So, to reduce the amount of money in circulation there remains the possibility of compelling commercial banks to purchase the central bank's bonds. Even less likely is to accelerate credit repayment on the part of banks.

Distorted Motives and Interests

Banks still owned by state and social companies

The banking sector is, for the most part, still largely owned by state and social companies. This leads to a distortion of motives and interests. The withdrawal of cash from the non-banking sector through the sale of securities has still not begun. The ability of bad banks to repay credits is low even in conditions of money expansion, while the enlargement of the mandatory reserves has long since proved unable to withdraw money from circulation. It only resulted in the reduced liquidity of banks, with broader negative repercussions.

Mr. Dinkić's announcement on the expanded use of interest rates in the dinar's quantitative regulation is encouraging. Interest rates will be formed on the basis of market principles, but also on the central bank's ability to influence the offer and demand for credits. The two will frequently take opposite directions. And even more importantly, for both operations on the open market and for the use of interest rates as a monetary-credit instrument, it is necessary to have a financial market and bonds, something that is not even in its inception yet. It is only after the privatization of social and state capital that we will have players on this market and conditions to influence interest rates on the basis of market principles.

Also projected is the coordination of the discount rate with trends of the interest rate level, even though a reverse effect should not be neglected either. Neither of the two function at present. The discount rate for January is set at 2 percent per month. Market interest rates are still higher, at 6.5 percent per month and more. Notably, the credit interest rate has dropped slightly as inflation, which stood at 2.9 percent in December, moderates and the hard currency exchange rates stabilize. The guided-fluctuating exchange rate of the dinar will also make it possible for the world credit market to have a beneficial impact on domestic credit terms.

Unified Hard Currency Market

The Law on hard currency operations does not provide for radical changes. The ultimate deadline for the realization of imports has been extended from one to two months from the day of the payment. Domestic banks have been allowed to grant hard currency credits for the imports of equipment and spare parts. The operations of the National Bank of Yugoslavia via the Institute of Accounting and Payments have been broadened to include money exchange operations. Such operations can also be conducted by other exchange bureaus owned by legal entities and physical persons with whom the central bank concludes contracts. The Law on foreign credit relations has still not been amended, even though this is of great urgency. The entire sphere of foreign monetary relations should be innovated and placed in the function of linking the domestic economy to the world economy.

Dinar set against the Mark in a guided-fluctuating exchange rate

According to the federal government's decision, the dinar's exchange rate is to be set against the German mark, based on the offer and demand on the unified hard currency market. Its motion from the exchange rate of the previous day is limited exclusively to the range set by the National Bank. This range is still not known. The proper cross-application of the German mark's exchange rate produces the exchange rates of other currencies, and exchange rates established in such a manner are applied to all hard currency transactions.

The federal government's Decree setting the conditions and manner in which the unified hard currency market is to operate is not in harmony with this. It is practically a word-for-word copy of the old regulation and, according to it, the middle exchange rates for each currency used in trade are calculated on the basis of overall purchase and sale on the hard currency market. The purchase rate is obtained when the middle exchange rate is deducted by 2.5 percent, and the selling hard currency rate when 2.5 percent is added to it. The governor determines the extent to which the purchase and selling exchange rates will differ from the middle rate. The other exchange rates are established through cross-application. The deviation of the purchase and selling exchange rates from the middle rate has so far been only 0.3 percent.

The inter-bank market in Belgrade is still formed by banks through contracts, but all the banks with current accounts abroad must be its members. Purchase on the hard currency market is performed promptly, with dinar payments made within two days' time. Hard currency trading in futures will be possible between banks themselves, as well as banks and other persons, with the agreed on exchange rate being able to deviate from the prompt one by no more than the difference between interest rates on the domestic market and the market of the currency being traded with. With the maintenance of such a rigidly set exchange rate, trading in futures will probably still not be possible. This is a pity, as a well-regulated futures market would be a useful stabilizing factor.

Before participating in the hard currency market, a bank is still obliged to present to the National Bank data on its hard currency standing (its foreign currency assets, expected inflows, outflows and liabilities) with a specification of the necessary hard currency outflow. On the hard currency market, the agreed on exchange rate can range between the purchase and selling rates. Sales are performed through a sales agreement. Another new form has also been introduced.

The established and published hard currency exchange rates must be used for all the transactions banks perform with the non-banking sector. The published hard currency exchange rates are not used for foreign cash, checks, letters of credit and postal orders, but it remains unclear which exchange rates will be applied and how they will be set. The Institute of Accounting and Payments is currently performing money exchange operations and it is once again being afforded certain old competencies. Thus, it was just recently entrusted with controlling the accounting and payments of the special federal tax. The transfer of payments to commercial banks has been postponed for a year. The shift is eagerly awaited. It is time to cease moving in the dark.

Transfer of payments to commercial banks postponed for a year

Stock Market and Hard Currency Trade

The weakness of the former and now renewed hard currency market can once again be demonstrated through excessive reliance on weak banks. Well-argued ideas for the stock market to be included in hard currency trading have been abandoned. We have still not been acquainted with the margins of the fluctuating exchange rate, so there remains the fear of the hard currency market once again staggering at the base, since the exchange rate is formed at the top. Faith in the dinar's convertibility should be widespread among the citizens and economic subjects. A hard currency exchange rate that would be imposed on banks on the inter-bank market would once again suspend the supply of the economy and citizens with hard currency. The defense of a non-balance dinar exchange rate with the sale of hard currency reserves is not long-lasting, even though the central bank's current reserves of over half a billion dollars and the additional USD 400 million on bank accounts, are quite certainly encouraging. But we have also to settle the large foreign debt even before we establish equilibrium in the domestic economy.

In the future the governor must give his consent, not merely his opinion, to the appointment of the directors of commercial banks. This can contribute to better staffing. However, even greater problems for banks are found in their balance sheets and profit-and-loss statements. At the end of last October, the losses of banks in Serbia reached the figure of 4.3 billion dinars. Losses could be larger after hard currency liabilities are entered according to the real exchange rate, while numerous claims can quite certainly not be collected, thus incurring new losses. The governor's haste to launch the rehabilitation, consolidation, or termination of banks should be hailed. If he truly categorizes them by the end of January into a) those that need no interventions, b) those in need of additional capitalization, c) those that are insolvent and require consolidation or d) those whose license will be revoked, he will have achieved a great deal. If the inclusion of foreign banks into the domestic banking system is initiated alongside with this, we can begin regaining optimism and hope for the development of the domestic financial market.

Swift moves to evaluate banks and restore market rationality to the sector

Somewhat in discrepancy with the governor's intentions and acts is the anticipated plan of the National Bank of Yugoslavia for this year. It envisages that the central bank's total revenues and expenditures stand at 10.1 billion dinars. This represents an increase of 173 percent compared to the 3.7 billion dinars planned for the previous year. The interest yielded by the enlarged hard currency reserves will bring in revenues, but interest will be paid on the average monthly hard currency reserves deposited in the central bank by banks authorized to conduct foreign business operations, and which are set at USD 4 million, i.e. USD 2 million, depending on the banks' authorization. Moreover, it would be good to change the legal regulation according to which the excess profits above the central banks expenditures are considered federal budget revenues, just as it would also be useful to revise the provisions on this bank's credit financing of the state.

Openness to Trade with the World

The country's openness to trade with the world is closely connected with the dinar's convertibility and stabilization. The changes that facilitate and simplify trade should be hailed, but significant changes are lacking. The import of used vehicles and certain machines has been facilitated, and the possibility of importing goods into the country has been expanded, but the quotas and permits remain in place. Persons involved in foreign trade no longer have to register with the ministry to keep a useless deposit of 10,000 German marks. An even greater facilitation is the abolition of the need to report a concluded foreign trade deal, which was replaced by book-keeping on the part of the participants. The use of quotas is also no longer registered with the ministry.

Administrative barriers to trade are simplified, but much remains to be done

Monetary management must be harmonized with the fiscal policy, but this sphere is not off to a good start. The law on a special federal tax on the sale of products and services for 2001 represents an extension of this temporary tax. Moreover, it has even been enlarged. The tax on purchased working equipment and agricultural machinery is 1% instead of the previous 0.6%. The tax on consumption products, on which the sales tax is paid at a lower rate, and on services has been increased from 2 percent to 3 percent, while for the products on which the sales tax is paid at a higher rate, the tax for this year stands at 5%, instead of the previous 4%.

The introduction of this tax is a mistake in many ways. The federal constitution affords the federal state only the right to adopt a law on the basics of the fiscal system, and not to levy taxes. This produces an even greater collision of fiscal competencies.

The mentioned law has also laid the foundations of taxes, but they do not include the special federal tax on the sale of products and services. And why should there be several sales taxes anyway? Under the Law on the basics of the fiscal system, the sales tax rates are 9 and 20 percent, and with this additional sales tax they mount in Belgrade to nearly a third of the price. The Institute of Accounting and Payments has been engaged to control the accounting and payments of the federal tax, so we have thus acquired a fourth institution for the collection of public revenues (two republican institutions, the customs service and this new one), which is not rational. This tax will quite certainly not be collected in Montenegro.

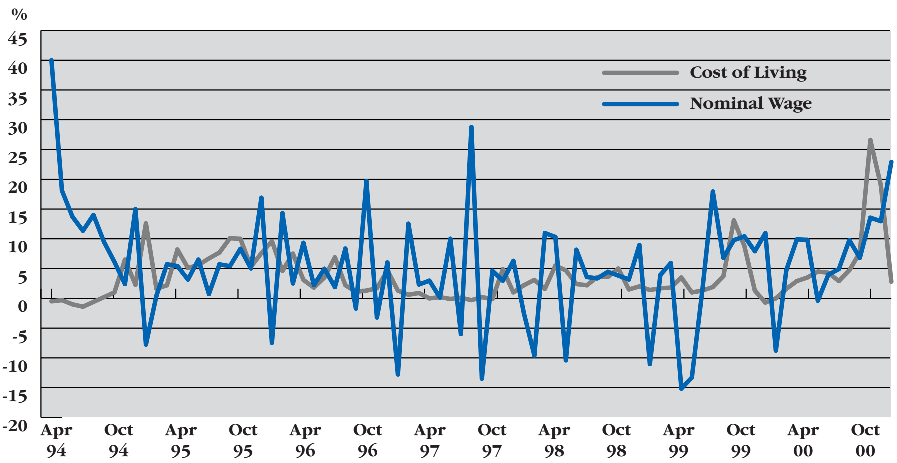
The increase in the sales tax does not provide for the promised reduction of taxes and duties and the lowering of public spending, which lies at the core of the necessary reforms. The federal budget for this year is set at 45.9 billion dinars, or 104 percent more than last year's budget. The mentioned new tax is to bring in almost a quarter of the revenues. It remains to be seen if the Serbian budget will be smaller, its sales tax reduced, of the timing of reforms to the fiscal system start off. Together with a speedy and effective privatization – they form the backbones of the necessary reforms.

MACROECONOMIC REVIEW

Prices and Wages

Monthly retail price inflation in Serbia was 2.8% in December, while the costs of living increased by 1.8%. This confirms forecasts of relative price stabilization following two-digit monthly rates in the previous two months. The annual retail price inflation was 111.9% in Serbia (FRY – 122.7%), while the costs of living grew by 115.3% (FRY – 115.4%) in the same period. Producers in Serbia raised their prices in December by 7.3%. Compared to 2000, the largest increase was recorded in the prices of tobacco, 66.2%, and beverages, 301%. The annual growth rate of the prices of agricultural products in the FRY was 142.5%, while the index of wholesale prices of industrial products was 147.7%. The prices of agricultural products registered a drop in December relative to the preceding month. If we compare the 2000 average with the 1999 average, the largest increase was in the prices of agricultural products, up 103.3%, and industrial products, up 82.5%.

Growth Rate of the Cost of Living and Nominal Wage in Serbia



Net wages in December (4,061 dinars) compared to those in November 2000 recorded a nominal increase of 23%, while the growth of nominal wages in November compared to October was 13%. Expressed in German marks, December wages are worth 135 DEM, or 23% more than in November. Real purchasing power (nominal wages deflationed by the cost of living index) grew by 21% in December. Compared to the same month of 1999 (expressed in DEM), the average wage is up by 55.6%. This favorable picture is conditioned by the fact that the annual nominal exchange rate growth was only 42.8%, which is a large difference compared to the mentioned inflation rates. The expected December rise in wages improved this year's wage average. The average wage for 2000 was 93 DEM, which is the result of a considerable real wage increase in the last three months of the year, in view of the fact that the average monthly wage ranged between 75 DEM and 90 DEM during the first nine months of 2000.

The population's total money earnings were worth 234.6 billion dinars, of which net wages accounted for 56.2 billion and pensions for 35.9 billion.

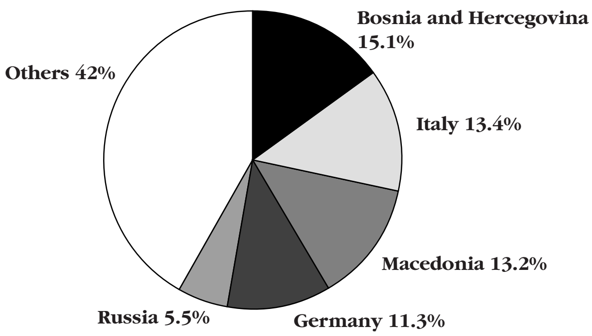
Output

Industrial output in the FRY in December 2000 dropped by 0.9 percent compared to the preceding month. In Montenegro, the output was down by 16.6%, while it increased in Serbia by 0.3%. In Central Serbia, output grew 0.5%, while in Vojvodina output registered a drop of 0.1%. Output was higher in 16 sectors – from 1.3% (the production of oil and gas) to 119.4% (the manufacture of various products), while it dropped in 19 branches, from 3.4% (the production of leather footwear and fine leather goods) to 83.1% (the extraction of iron ore). The deseasonalized index for December shows a 2.1% drop relative to November. Industrial output in the FRY in December 2000 was down by 8.6% compared to the same month of the preceding year when the impact of seasonal factors was the same. Output dropped in Montenegro by 16.6%, and in Serbia by 8.3%. The output drop in Central Serbia was 13.6%, while Vojvodina registered an increase of 4.4%. Compared to the preceding month, output grew in 12 branches – from 2.8% (coal extraction) to 91.2% (the manufacture of oil products), while a drop was recorded in all other branches, ranging between 1.5% (metal processing) and 98.3% (extraction of iron ore). Industrial output in the FRY in 2000 is up by 10.9% relative to 1999. Output growth in Montenegro was 3.7%, and 11.4% in Serbia. Output increased in Central Serbia by 12.0%, and in Vojvodina by 10.1%. Six branches recorded a drop in output – from 1.4% (the manufacture of food products) to 4.7% (extraction of iron ore), while output increased in all the other branches, from 0.3% (shipbuilding) to 153.5% (ferrous metallurgy). Industrial output in the FRY in December 2000 dropped by 70.8% compared to December 1989, and fell by 70.2% in 2000 relative to 1989.

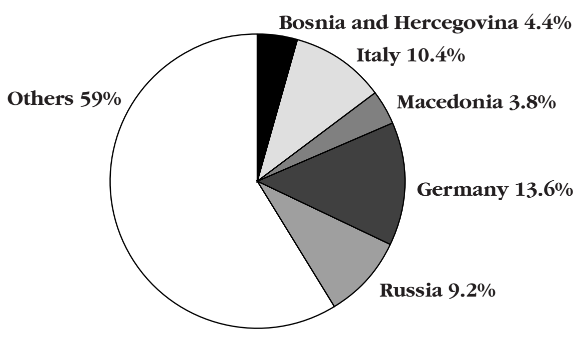
Foreign trade

Total FRY imports in 2000 were worth USD 3.662 billion, while total exports accounted for USD 1.713 billion. The overall trade deficit in 2000 was USD 1.949 billion. Compared to the 12 months of 1999, exports increased by 15%, and imports were up by 12.6%. For the 12 months of 2000, the export-

Export from Serbia



Import to Serbia

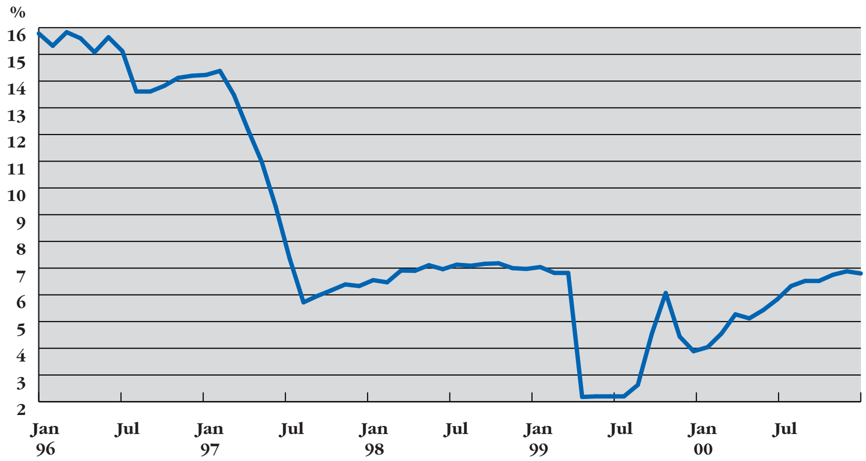


import ratio was 46%. Exports remained unchanged in December compared to the preceding month, totaling to USD 141 million, while imports dropped by 4.3%, to USD 285 million. The export-import ratio in November was 49.4%.

In December, Serbia exported goods worth USD 136 million, and imported goods with a total value of USD 233 million. Compared to November 2000, exports and imports registered an increase by 6.8% and 0.9%. Relative to December 1999, exports increased by 17.7%, while imports dropped by 3.5%. Serbia's total imports in 2000 were worth USD 3.035 billion, while total exports totaled to USD 1.411 billion. The overall foreign trade deficit was USD 1.624 billion.

The FRY's main export partners were: Bosnia-Herzegovina (with Republika Srpska) 14.7%, Italy 12.9% and Germany 10.2%. The top countries FRY imported from were: Germany 12.9%, Italy 10.5%, Russia 8.6% and Bulgaria 8.7%. The FRY has a positive balance only with BiH and Macedonia. It has the largest trade deficits with Germany (USD 302 million), Russia (USD 233 million) and Bulgaria (USD 167 million). Compared to 1999, the FRY's exports to BiH dropped by 16% and imports from BiH were reduced by 6.6%, while for Germany a rise was registered in both exports (41.6%) and imports (17.1%). From the ten countries to which FRY exports were the largest, it is interesting that exports to Cyprus increased by 177% relative to 1999, while among the ten countries from which FRY imported the most, imports from Bulgaria registered a rise of 117% relative to 1999.

Market Interest Rate, monthly values



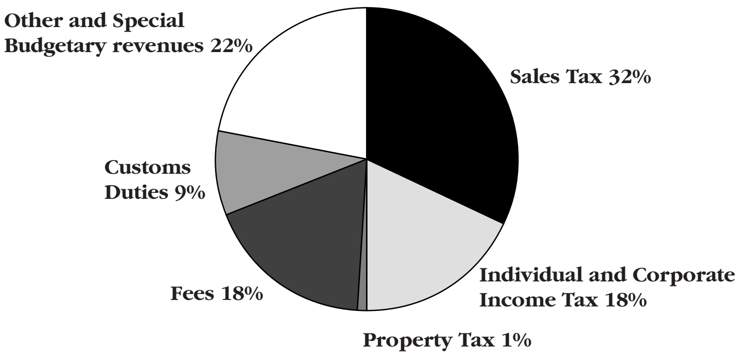
Regarding the structure of foreign trade by products, FRY's main exports in 2000 were aluminum (7.4%), raspberries (3.6%), beech wood (2.4%) and medicine for retail trade (2.3%). The main imports were of diesel oil (6.3%), gasoline (5.7%), motor vehicles (3.2%) and natural gas (2.1%). Compared to 1999, aluminum exports increased by 57.1%, and medicine for retail trade was up by 38.9%. Imports of diesel oil grew by 79.4% relative to 1999.

Money, Public Revenues and Expenditures

The period of remonetization continued in the course of December. The M1 money aggregate totaled to 31.3 billion dinars, i.e. 1,043 million DEM. An exceptionally high monthly growth was registered in the real and nominal money supply by as much as 17.3%. Primary emission was resorted to exclusively on the basis of hard currency transactions.

December will be remembered by oscillations within the M1 aggregate. Following October, the share of cash in the M1 aggregate initially drop-ped from 38% to around 30%. The obvious intention of these measures was to reduce the possibility of tax evasion with the use of cash. Public revenues collected in December nominally increased by 59.18% compared to November, and accounted for 23.4 billion dinars. At the end of December, the usual change in favor of cash took place, so that the initial ratio was more or less restored. The M2 money aggregate totaled to 36.7 billion dinars.

Structure of FRY Public Revenue in 2000



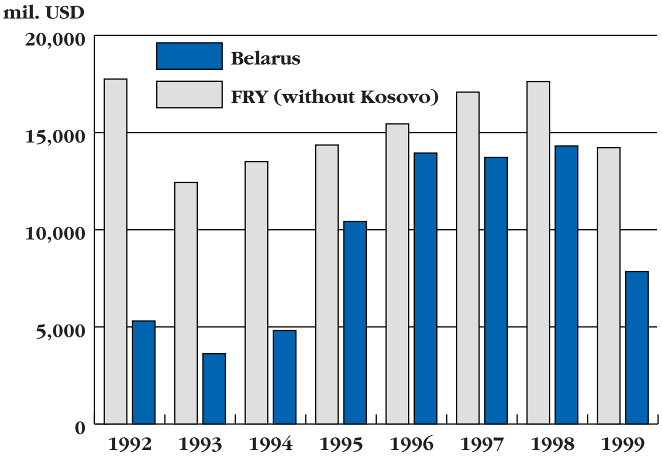
A problem is still the exceptionally high market interest rate (the weighted rate on commercial and treasury bonds and certificate of deposits) of 6.8%. This level represents a serious obstacle to the better use of capacities and an increase in exports, i.e. short-term capital drives money away from the credit financing of production. At monthly inflation levels between 1 and 2%, this is an exceptionally high real interest rate, which renders the purchase of short-term commercial bonds extremely profitable, at a high risk. At issue is a veritable moral hazard in which certain stock market brokers and issuers of commercial bonds participate.

Total nominal public revenues in 1999 were worth 139.6 billion dinars, out of which budgetary revenues accounted for 89.8 billion, and revenues of social security organizations (funds) were 49.7 billion. One should also take into account the extremely high level of off-balance items, whereby the share of public revenues in the social product is considerably higher.

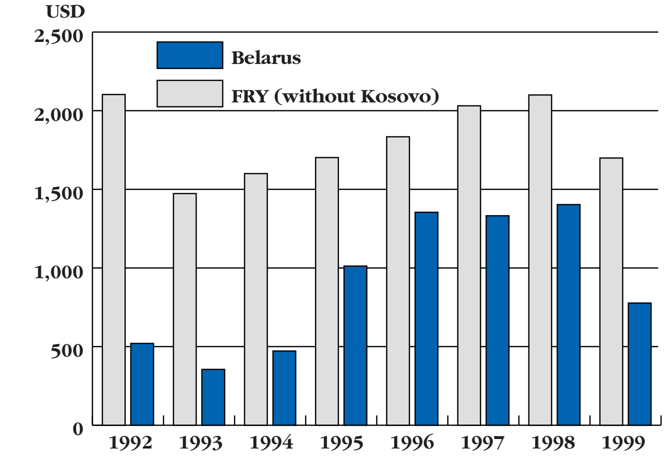
In the structure of public revenues, taxes account for 51.3% (taxes on the sale of goods and services and excises account for 32%, the property tax 1.4%, profit tax 17.9% - of which the share of the income tax is almost 92%, and of the corporate income tax only 8%); customs duties account for 9.1%, and fees for 17%, while the rest are other budgetary revenues.

Yugoslavia in the mirror of Eastern Europe

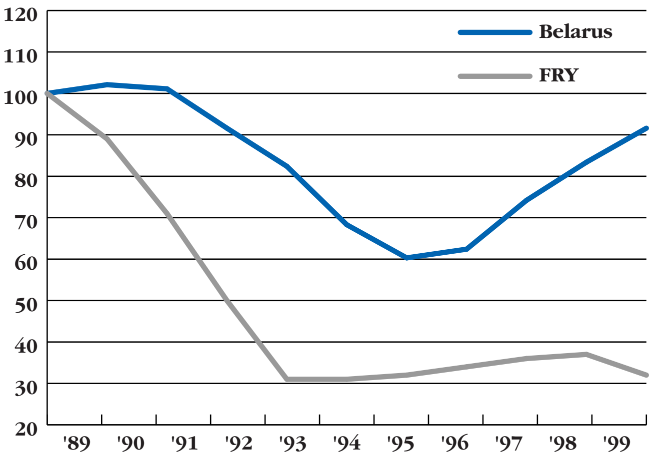
GDP



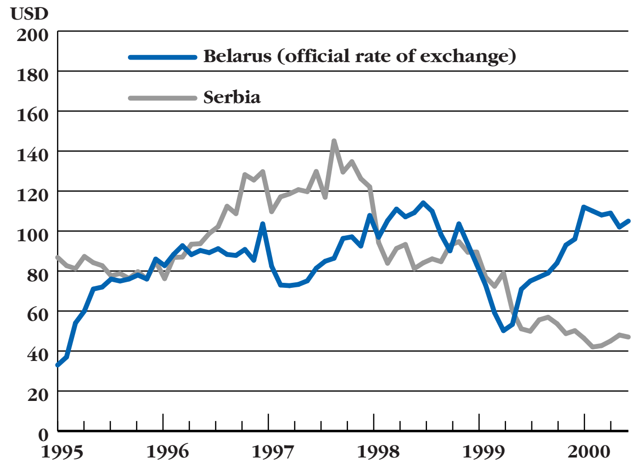
GDP per capita



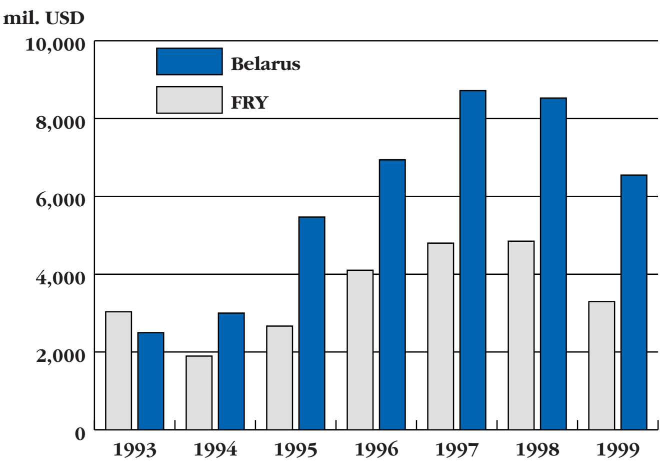
Industrial Production 1989 = 100



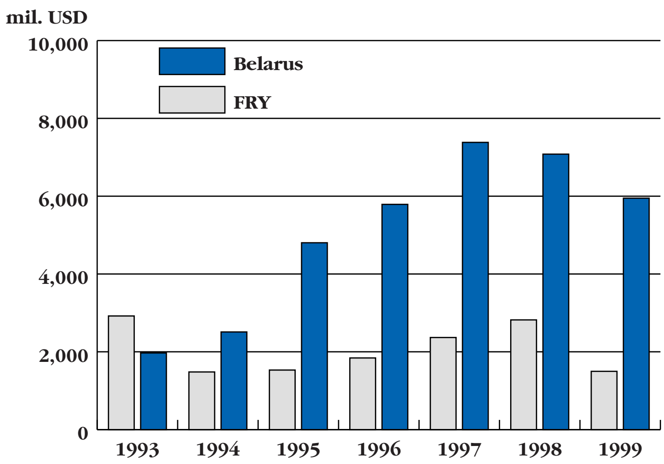
Salaries Quarterly Wage



Import



Export



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